

MEMORANDUM

To: Interested Parties

From: Jennifer Bowman, Stuart Hagen, and Alexis Ahlstrom

Re: Preliminary analysis of selected mental health parity legislative options

Date: March 26, 2002

This memorandum presents a preliminary analysis of two questions regarding the effect on premiums for group health insurance of the mental health parity provisions in S. 543, the Mental Health Equitable Treatment Act. One question deals with the costs of S. 543 under an alternative assumption about the timing of the enactment of patients' rights legislation. The second question deals with the costs of S. 543 if it were modified in certain ways. Because this analysis has not gone through the formal review process and is not based on specific legislative language, the estimates are preliminary and subject to change.

Effects on Premiums for Private Health Insurance. Estimates of the percentage impact on premiums for group health insurance presented here represent an average effect over the 2003-2012 time horizon, and are before any adjustment for the response of health plans, employers, and workers to the higher premiums under the bill. In addition, the estimates have been adjusted to take into consideration that many employers already comply with mental health parity laws enacted by a number of states. In our analysis, we assumed that the provisions of the Mental Health Parity Act of 1996, which were extended by Public Law 107-147, will expire on December 31, 2003. That act prohibits group health plans that provide both medical and surgical benefits and mental health benefits from imposing aggregate lifetime limits or annual limits for coverage of mental health benefits that are different from those used for medical and surgical benefits.

The first question relates to the interaction of the provisions in S. 543 with those in the Bipartisan Patient Protection Act (S. 1052, as passed by the Senate). Previously, CBO estimated that S. 543, as ordered reported by the Senate Committee on Health, Education, Labor and Pensions on August 1, 2001, would increase premiums for group health insurance by an average of 0.9 percent. If the enactment of S. 1052 preceded consideration of S. 543, we estimate that S. 543 would increase premiums for group health insurance by an average of 1.1 percent, or approximately 0.2 percentage points more than the current estimate of S. 543 in the absence of S. 1052.

The second question relates to the effect of allowing individual employers to obtain an exemption from the requirements of S. 543 if they would experience increases in their premium costs above a specified threshold. We estimate that an exemption threshold of 1 percent would imply that premiums for group health insurance would rise by an average of 0.4 percent, or about 0.5 percentage points less than if no such ceiling existed. Ceilings of 2 or 3 percent would result in increases in group health insurance premiums of about 0.7 percent and 0.8 percent, respectively.

The estimates for the specified thresholds are based on several assumptions: First, S. 543 passes prior to the enactment of patients' rights legislation. Second, the exemption only pertains to the federal law. That is, insurance plans subject to state mental health parity laws could not obtain an exemption from state laws, regardless of their costs. Finally, we assumed that firms with costs in excess of the specified threshold are accurately identified and exempted from the requirements of S. 543. In practice, the cost of the mental health parity provision with an exemption threshold could be lower if some affected firms whose costs did not exceed the threshold received the exemption, and the cost could be higher if not all firms with costs in excess of the threshold filed for an exemption.

Effect on Federal Revenues. We assume that 60 percent of the increase in premiums attributable to the mental health parity provisions would be offset by purchasers switching to less expensive plans, cutting back on benefits, or dropping coverage. Most of the remaining costs ultimately would be passed through to employees, reducing both their taxable compensation and other fringe benefits. Reductions in taxable compensation would lead to lower federal tax revenues. We estimate that enacting S. 543 following the enactment of S. 1052 would reduce federal revenues by \$2.7 billion from 2003 through 2007 and \$6.8 billion over the 2003-2012 period. (We estimate that enacting S. 543 in the absence of S. 1052 would decrease federal revenues by \$2.2 billion from 2003 through 2007 and \$5.4 billion over the 2003-2012 period.) About 30 percent of the reduction would be off-budget. For the scenarios with an exemption threshold, the effect on revenues would be proportional to the effect on premiums.

If you have additional questions concerning this analysis, please contact Jennifer Bowman at (202) 225-2598, Stuart Hagen (202) 225-2644, or Alexis Ahlstrom (202) 226-9010.